

STRATEGIC MANAGEMENT SYSTEMS, INC.

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December 3, 1997

Ms. Kelly L. Cullison
Assistant Vice President for Internal Audit
One HealthSouth Parkway
Birmingham, AL 35243

Re: Compliance Policies and Procedures for Roles and Responsibilities for the Compliance Officer,
Employee Issue Resolution Process, and Protocols between the Compliance Office and Legal Counsel

Dear Kelly:

This letter is a follow-up to our previous telephone discussion regarding the development of Compliance Policies and Procedures for HealthSouth. We previously provided you a list of 14 issue areas which will be developed into draft policies and procedures by us for the Compliance Office. We have developed the first three "straw" policies and procedures for your review. According to your desire to have them as quickly as possible we began with the following: "Roles and Responsibilities for the Compliance Officer," "Employee Issue Resolution Process" and "Protocols between the Compliance Office and Legal Counsel."

As per our previous discussion, we have taken the charted roles and responsibilities and converted them into Compliance Office Policies and Procedures on the subject. Everything related to the function will be in one place as a result. It is also important that you ensure this policy and procedure is crafted sufficiently to account for your role as well as the Compliance Officer.

While every company has their own process, consistent with their culture, in dealing with problems, it is important that your method be cast in the form of a policy and procedure. We have tried to follow your desired approach in dealing with this, however it may not be exactly on track. The enclosed draft policy and procedures will need to be modified so as to be consistent with the way HealthSouth traditionally operates.

Most of the concerns, allegations and complaints that come into the Compliance Office are best handled by the Compliance Office. But, occasions will arise when Legal Counsel needs to direct the issue resolution process. It is important that HealthSouth have a policy that determines when it is appropriate to notify Legal Counsel. The enclosed draft policy and procedure is designed to address this issue. You will need to discuss this with Legal Counsel to ensure that it is consistent with your intended modus operandi.

If you would like to discuss any of the policies and procedures submitted to date, or if you have any questions or concerns, please contact me at (703) 683-9600.

Sincerely,



Richard P. Kusserow
President

cc: Anthony J. Tanner, Executive Vice President, Corporate Compliance Officer

HHEC 259-0171
Confidential Treatment
Requested by HealthSouth Corp.

HEALTHSOUTH

Roles and Responsibilities for the Compliance Officer

COMPLIANCE POLICY NO. _____

Effective Date: _____

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BACKGROUND/PURPOSE

The critical issue from the standpoint of the Guidelines of the United States Sentencing Commission and standards of the Model Compliance Programs of the Office of Inspector General that the Roles and Responsibilities for the Compliance Officer be clearly delineated. This is particularly important as to the positioning of the Compliance Officer in relationship to the CEO and Board.

POLICY

It is the Policy of Health South that the Compliance Officer have direct access to the CEO and, if deemed necessary, to the Board. The Compliance Officer is to be the focal point for all compliance activities and is an integral part of management and not subordinate to either the Legal Counsel or financial management. However, the Compliance Officer shall consult with these functions in making compliance decisions.

PROCEDURES

The Compliance Officer shall carry out the responsibilities of the office by engaging in the following procedures:

1. Oversee and monitor HealthSouth's compliance activities. This includes designing and implementing the compliance program, as well as reviewing the content and performance of the Compliance Program on a continuing basis and taking appropriate steps to improve its effectiveness.
2. Periodically prepare and deliver reports to the CEO and Board on the status of HealthSouth's compliance efforts.
3. Investigate compliance violations and acts as appropriated to resolve problems. In carrying out the responsibilities of the function, will have access to all needed information, including contracts, billing records, and arrangements entered into by HealthSouth purposes of review.
4. Act in the role of Executive Director of the Executive Compliance Committee in reporting results of the compliance efforts of the company; and in providing oversight and guidance for the Chairman of the Board, President, Chief Operating Officer, Legal Counsel, and senior management on matters relating to compliance.

5. Be responsible, together with the Executive Compliance Committee, to implement all necessary actions to ensure achievement of the objectives of an effective compliance program by means of reviews, relevant training, a system of consistent enforcement of the rules, and the development/implementation of corrective action plans.
6. Work with legal counsel, reviews and updates on a periodic basis the Standards of Conduct to ensure its continuing currency and relevance in providing guidance to management and employees.
7. Institute, maintain, and revise policies and procedures consistent with the HealthSouth Compliance Program for the general operation of the program and related activities to prevent illegal, unethical, or improper conduct.
8. Oversee and manage the performance of the compliance program and identify potential areas of compliance vulnerability and risk; and thereafter, provide specific direction as to the resolution of problematic issues, as well as general guidance to the company at large on how to deal with similar situations.
9. Develop and oversee the HealthSouth "Hotline" operation to solicit, evaluate, and respond to complaints and problems. Provide direction, oversight, and day-to-day management of the "Hotline" operation and other "feedback" mechanisms from employees.
10. Assist in the development and implementation of an effective compliance communication program for all company managers and employees, including promoting (a) use of the "Hotline," (b) heightened awareness of the Standards of Conduct, (c) understanding of new and existing compliance issues and related policies and procedures, and (d) reporting violations of laws, regulations, company policies, and Standards of Conduct.
11. Work with the Chief Financial Officer in ongoing monitoring and evaluating of HealthSouth's regulatory compliance in business activities and recommending the development of internal systems and controls to reinforce compliance.
12. Analyze the organization's business, industry environment and legal requirements with which it must comply, including specific risk areas; and assessing existing policies and procedures which address these areas.
13. Prepare periodic reports and evidence for the Executive Compliance Committee and the Board on the progress and effectiveness of HealthSouth's compliance activities and efforts.
14. Develop and oversee a system for uniform enforcement of violations of rules, regulations, policies, procedures, and the Standards of Conduct; and where appropriate, ensure proper reporting of potential violations of law to the duly authorized law enforcement agencies.
15. Coordinate with Human Resources compliance problems that involve personnel related issues, including, (a) assuring that appropriate sanction and disciplining agencies of the government have been checked for new and current employees, such as the Cumulative Sanction List of the Office of Inspector General; and (b) verifying credentials and licenses have been checked for new and current employees.
16. Ensure that individuals, entities and organizations with whom HealthSouth engages in a business relationship have been checked for sanctioning information with duly authorized regulatory and enforcement agencies.

HEALTHSOUTH CORPORATION

Employee Issue Resolution Process

COMPLIANCE POLICY NO. _____

Effective Date: _____

Page ____ of ____

BACKGROUND/PURPOSE

The Compliance Office has been created to act as a facilitator of issues and problems arising from expressed employee concerns, complaints, and allegations. In addition, work of the Compliance Office may generate information that warrants closer examination or steps to resolve problems. As a rule, the Compliance Office will be engaging others to assist in resolution of issues on an ad hoc basis. The following policies and procedures are designed to provide guidance as to how this process will work.

POLICIES

1. Any contact by employees concerning compliance matters with Corporate executives and managers will be routed to the Compliance Office for handling through the Employee Issue Resolution Process. All communications will be stamped, logged, and sequentially numbered upon receipt by the Compliance Office.
2. All calls received on the Hotline will be handled in accordance with the Compliance Office Policies and Procedures concerning Hotline Operations. All those calling the Compliance Office Hotline are assured anonymity within legal and practicable limits should they choose not to identify themselves. Care must be taken to assure the anonymity of these hotline callers. In the event that an anonymous hotline caller is identified, then confidentiality must be maintained, as per the Policies and Procedures for Hotline Operations (Compliance Policy Number _____).
3. In general, the Employee Issue Resolution Process should be completed, to include an analysis of the situation and a clear-cut decision, within twenty (20) business days from receipt. Not all matters can be reasonably foreseen, therefore there may be circumstances that warrant a continuation of this timeframe. Such extensions and their reasons should be noted in the file.
4. If potential legal issues exist, the report will be provided to Legal Counsel as provided for under the Policies and Procedures set forth under Protocols between the Legal Counsel and Compliance Office (Compliance Policy Number _____).
5. Complaints received from attorneys or law enforcement agencies will generally be referred to Legal Counsel for advice as provided for under the Policy and Procedure for Protocols Between Legal Counsel and the Compliance Office (Compliance Policy Number _____). Compliance issues will likewise be referred to the Compliance Office for resolution. Anonymous compliance complaints will be investigated only if the Company deems it to be appropriate.
6. All written reports stemming from such an investigation will be kept separately from the complaining employee's personnel file and will be filed only with the Compliance Office. Access to these records

will be strictly limited and available only to senior management with prior approval of the Compliance Office. The Compliance Policies and Procedures for Record Management (Compliance Policy Number ____) will be followed.

7. Management at all levels should ensure that no action is taken which may appear to be retaliation for an employee's utilization of the Corporate Compliance Hotline or Issue Resolution Process and be sensitized to this issue as provided for under the Non-Retribution/Non-Retaliation Policies and Procedures (Compliance Policy Number ____).

PROCEDURES

While it is inappropriate to establish rigid procedures for the conduct of inquiries arising from employee complaints, certain guide lines should be followed. A consistent framework/approach will lend to the clarity of the process and provide management with a formula for addressing issues raised to them from within the various business units. The following operational guidelines should provide the desired frame work:

1. The matter will be assigned to a person who is in a recognized and responsible position, organizationally removed from the employees immediate management, and who is free from prior involvement in the circumstances of the particular case or individual's appeal.
2. Before alerting management, the individual making the complaint should be fully debriefed on all relevant facts. It is important to understand the situation from their perspective. While it is not the role of the party examining the issue to be an advocate for either the employee or the object of the complaint, it is clearly expected that every effort will be made to find a solution satisfactory to the employee, while maintaining good business practices. Success is a fair hearing solution for both the employee and HealthSouth.
3. In addition, the individual making the inquiries should ensure the following:
 - a) Conduct a fair impartial review of all relevant facts.
 - b) Understand there are often two sides to an issue and the review process may substantiate the individual's point of view or that of the opposing party, or an alternate position acceptable to the parties may be found.
 - c) Restrict the inquiry to those necessary to resolve the issues.
 - d) In rare instances, it may be necessary to meet with the two parties simultaneously to clarify a key issue.
 - e) Conduct the inquiry with as little visibility as possible while gathering pertinent facts relating to the complaint.
3. A summary of the results of the inquiry will be submitted to the Compliance Office along with recommendations for final resolution. Every effort must be made to protect the privacy of those contacted during the inquiry and in no case should the employee be advised as to the extent, if any, of management discipline resulting from the matter. If a manager's action is reversed, the reasons for that reversal must be reviewed with that manager, the appropriate level of management within the organization, and the complaining employee.

4. The field employee managing the process of determining the facts behind the allegation, complaint, and concern should generally follow the outline set forth below:
 - Fully debrief complainant;
 - Notify appropriate internal parties;
 - Determine cause of problem, desired outcome, affected parties, applicable guidelines, possible regulatory or financial impact;
 - Provide a complete list of findings and recommendations;
 - Determine corrective action measures necessary; e.g. Policy changes, Operational changes, System changes, Personnel changes, Training/education, etc.
 - Documentation of results through an Issue Report.
5. Confidentiality is a requirement in a reporting system if that system is to be trusted by its users. HealthSouth employees must have confidence that any information gathered during the course of an investigation will be handled carefully and not be available to those without a business need to know. This right to confidentiality is not only preferred, but is essential if HealthSouth's employees are to utilize the system. For this reason, written or verbal communication concerning the review conducted under these policies are strictly limited to those with a business need to know.
6. A written report, to be filed with the original written communication, should be prepared and filed with the Compliance Office. This report will enable the business to have an appropriate record of the management actions, if any, taken. It should include a summary of the individual's complaint, a chronology of events, findings/conclusions, and recommended actions with specific responsibilities identified at the appropriate management level to ensure the required implementation takes place. The manager responsible for the implementation plan must notify the Compliance Office, in writing, that the appropriate actions have been implemented.
7. Complaints received from former employees, applicants, or others on their own behalf will be handled within the same guidelines applicable to current employees as discussed above. Reports or pertinent information will not be provided to a third party.
8. All files relative to the Hotline or Executive Communication will be filed in the Compliance Office by year, month, and sequential number with cross references to operating division and location code. The files will be housed in the Corporate Compliance Department and will be locked at all times.

HEALTHSOUTH CORPORATION

Protocols between the Compliance Office and Legal Counsel

COMPLIANCE POLICY NO. _____

Effective Date: _____

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BACKGROUND/PURPOSE

The importance of establishing and maintaining a protocol between Legal Counsel and the Compliance Office is a matter of high priority for the Compliance Program. Although most allegations, concerns, and complaints received by the Compliance Office and Hotline are matters that are most appropriately addressed by the Compliance Office, on occasion issues arise that should be addressed under direction of Legal Counsel. This is to be done to adequately protect the identity of individuals cooperating with the resolution of the matter and to protect the evidence for possible future action.

POLICY

Whenever there are allegations of violations of criminal law, Legal Counsel must be called in to address the legal sufficiency of the allegations. In view of the fact that the Office of Inspector General, in their pronouncements and Model Compliance Plans, has stated that all of these decisions need to be made within 30 days. With the extremely limited time available to carry out all these steps, Legal Counsel should be notified immediately upon receipt of allegations or evidence suggesting criminal wrongdoing. Legal Counsel must also take steps to ensure that employee rights are protected and evidence is preserved. It will be important for you to decide whether such matters would be referred directly to inside or outside counsel.

PROCEDURES

Legal Counsel will conduct their investigation and evaluate the facts and evidence with utmost dispatch to determine whether there is reason to believe a criminal violation may have occurred. It will be further their responsibility, as Legal Counsel to the company, to:

- Determine how to address the issue;
- Determine a proper course of action to resolve the facts of the situation;
- Determine whether the fact and evidence warrant action;
- Determine whether referral to a duly authorized law enforcement agency is called for;
- Establish the appropriate enforcement agency to be notified,
- Determine when that referral or disclosure should be made; and,
- Determine under what circumstances it should take place.

Once all the facts have been evaluated and determinations made, Legal Counsel will report back to Senior Management with recommended courses of action, including referral to a duly authorized law enforcement agency. All of the foregoing steps will be completed within 30 days.

The following form shall be used to engage Legal Counsel in this effort. On a case by case basis, this document may need to be reviewed with Legal Counsel for modification to meet specific needs. The language will need to reflect whether the Legal Counsel is inside or outside the company. This type of document will also evidence that the matter has been turned over to Legal Counsel and establish the necessary "audit trail" to that end. The enclosed document is also designed to make clear the fact that matters would be investigated under direction of Legal Counsel. It thereby assists in establishing Attorney-Client Privilege.

(ATTACHMENT)

(DATE)

TO: , HealthSouth Legal Counsel

Subject: _____

I was informed on (DATE) of a possible violation of the Standards of Conduct regarding (NAME OF UNIT OR PARTIES) that may raise to the level of a criminal violation. In order to assess this properly, we need your legal advice and counsel as to the likely facts and the applicable law. Please look into this possible irregularity and advise accordingly. Based upon the results of your inquiry and evaluation of the facts, you can advise as to the appropriate manner by which this issue can be addressed, as well as whether sufficient evidence exists to warrant referral to a duly authorized law enforcement agency. We recognize that in conducting an investigation you may require the assistance of others. It should be made clear to those who assist you that any such assistance is being specifically provided at your request and under your direction and not the Compliance Office. As per our understanding with you, you should consider your work on this matter and the efforts of those assisting you to be confidential; accordingly, those with whom you work, as well as those whom you may interview, should be cautioned that the conversations and investigation itself are not to be discussed or otherwise disclosed except to you.

Thank you for your cooperation and assistance.

(COMPLIANCE OFFICER)

HHEC 259-0179
Confidential Treatment
Requested by HealthSouth Corp.